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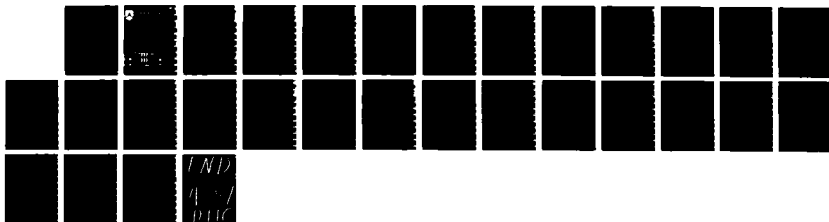
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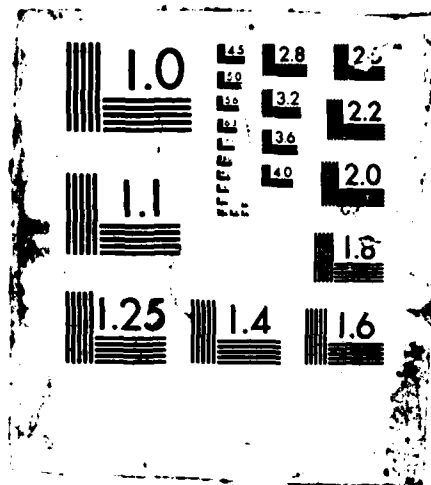
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## RESEARCH REPORT

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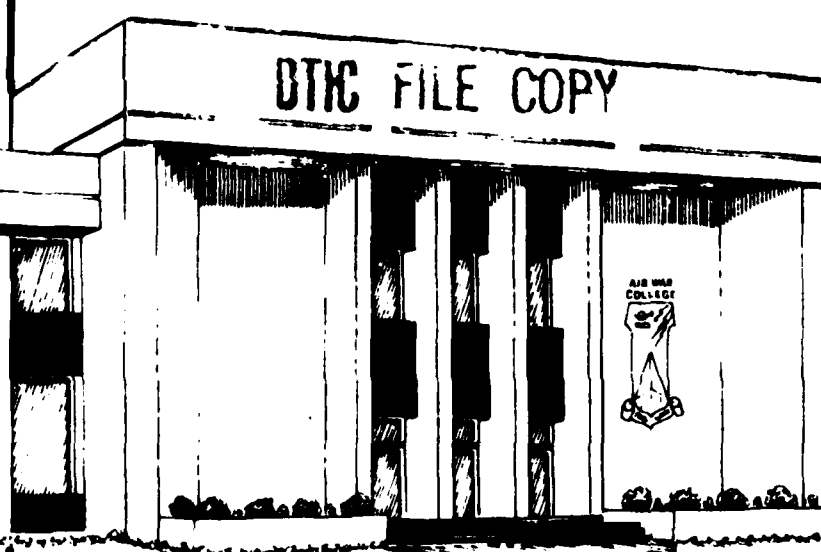
GRAMM-RUDMAN-HOLLINGS ACT

By COLONEL FREDERICK L. GREEN

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GRAMM-RUDMAN-HOLLINGS ACT

by

Frederick L. Green  
Colonel, USAF

A RESEARCH REPORT SUBMITTED TO THE FACULTY  
IN  
FULFILLMENT OF THE RESEARCH  
REQUIREMENT

Research Advisor: Colonel Dick Clark

MAXWELL AIR FORCE BASE, ALABAMA

MAY 1986

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AIR WAR COLLEGE RESEARCH REPORT ABSTRACT

TITLE: GRAMM-RUDMAN-HOLLINGS ACT

AUTHOR: Frederick L. Green, Colonel, USAF

→ The purpose of the Act along with a short background is provided. Key provisions of the Act are listed and described. The effects of the Act on the FY 86 defense budget are explained followed by a projection of the effects on the FY 87-91 defense budget. Finally, a list of concerns are raised by the author as "food for thought."

## BIOGRAPHICAL SKETCH

Colonel Frederick L. Green (M.B.A., University of Nebraska) is a Strategic Air Command pilot with extensive experience in the development, testing and acquisition of the newest strategic weapons systems. A combat vereran with 384 missions in the B-52D, from 1967-1972, he served as an instructor pilot, airborne commander and wave leader. He Served an ASTRA tour at AFMPC in 1973 and then spent four years at HQ SAC, Offutt AFB as the B-52 Program Element Monitor (PEM) and the B-1 Systems Acquisition Manager. In 1978, he attended the Armed Forces Staff College, Norfolk, VA, and then reported to Edwards AFB, CA, where he helped establish the B-52 Air Launched Cruise Missile Joint Test Force and served as the Chief of Flight Test Operations for this organization. In 1981, Colonel Green reported to the Pentagon to begin a four tour in AF/RD in the office for Low Observable Technology. In this capacity, he was instrumental in developments leading to the Advanced Technology Bomber. Col Green is a graduate of the Air War College, Class of 1986.

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## CHAPTER I

### INTRODUCTION

In its short life, the Gramm-Rudman-Hollings Act has attracted more attention, and created more confusion than any other legislation in recent times. While this Act impacts the entire federal budget, my immediate concern and a question on the lips of many of my colleagues is, "How will it effect the defense budget?" Most of the recent speakers at the Air War College have expressed concern but do not seem to have the answers to our question. When you pick up a newspaper or a magazine, there always seems to be a different opinion on this subject.

In signing the bill into law, President Reagan indicated full intention to hold to "the 3 percent real growth [in defense] he agreed to last summer with congressional leaders in exchange for zero growth this year [FY 86]."

(5:23) At the same time, Representative Les Aspin predicted "defense will lose \$15 billion to \$18 billion of budget authority this year [FY 86] and \$64 to \$65 billion in the coming fiscal year--a total of \$79 to \$83 billion."

(3:2) Senator Daniel Patrick Moynihan (D-NY) referring to Congress, made these comments, "I make the prediction that by March [1986] this place will be in a state of panic, that

there will not be 10 people in this body who will claim to have wanted Gramm-Rudman." (4:8)

With these differences of opinions, it is easy to see why there are a lot of concerns but very few answers. This research paper does not have all the answers. But it does provide answers to some of the questions. Only time will answer all of the questions.

Chapter I gives a brief summary of the Act, provides important background information and then describes the key provisions. Chapter II explains how the Act will effect the defense budget in FY 86. Chapter III provides some predictions of how the Act might effect the defense budget in FY 87 and beyond. Chapter IV lists some concerns the author has regarding Gramm-Rudman-Hollings.

While this subject is very timely, it is also very dynamic. Each new budget cycle will bring new excitement and provide more information. This paper will provide the basis for the reader to enjoy this excitement and understand the new information concerning Gramm-Rudman-Hollings.

## CHAPTER II WHAT IS GRAMM-RUDMAN-HOLLINGS ACT?

The Gramm-Rudman-Hollings Act, often shortened to Gramm-Rudman, GRH\* or G-R, is officially the "Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177)." (8:2636) It is a comprehensive bill designated to balance the federal budget by fiscal year 1991. The bill sets deficit ceilings for each budget year beginning in FY 86 and continuing through FY 91. In addition to setting budget ceilings for each year, it establishes automatic reductions that go into effect if either the President or Congress exceeds the ceilings. The new law amends the 1974 Congressional Budget and Impoundment Control Act (RL 93-344).

The GRH raced through Congress at unprecedented speed. It was introduced in the Senate as S1702 on 25 September 1985 by Senators Phil Gramm (R-TX), Warren B. Rudman (R-NH) and Ernest F. Hollings (D-SC). (12:2035) It passed the Senate on 10 October 1985 and was sent to the House, which decided to go directly into conference with the Senate. On

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\*For ease of reading, GRH will be used throughout the remainder of this paper to refer to the Gramm-Rudman-Hollings Act.

11 December 1985, both houses of Congress passed the joint resolution (developed in conference) and sent the bill to the White House. President Reagan signed the legislation into law on 12 December 1985. Through this entire process, GRH bypassed the normal systems of formal hearings and reviews in the Senate, House and Conference. Instead, changes were hammered out in informal and often unofficial meetings between the key members of Congress. This process has contributed to much of the misunderstanding and lack of understanding of GRH on the part of Congress and the public. It may also be partly to blame for the constitutional question regarding the legislation.

As stated earlier, the GRH is very comprehensive and a complete description is beyond the scope of this paper. However, the key provisions of the bill are summarized below.

1. Establishes maximum allowable federal deficits:

<u>FISCAL YEAR</u>	<u>MAXIMUM DEFICIT (\$ in billions)</u>
1986	171.9
1987	144.0
1988	108.0
1989	72.0
1990	36.0
1991	ZERO

2. Establishes special rules FY 86 budget deficits in excess of the ceiling.

3. Provides a special timetable for completing action on the FY 86 budget. See Table 1.

## Special Timetable for Fiscal 1986

"Snapshot" of economic indicators, laws affecting spending and revenues and projected deficit taken by Congressional Budget Office (CBO) and Office of Management and Budget (OMB)	January 10
CBO and OMB report to General Accounting Office (GAO) on deficit and content of the so-called sequester order making automatic spending cuts to achieve deficit targets	January 15
GAO forwards deficit and sequester report to president	January 20
President issues sequester order based on GAO report	February 1
Sequester order takes effect	March 1
GAO issues compliance report on sequester order	April 1

Table 1 (10:2609)

4. Revises the budget timetables for completing action on the FY 87-91 budgets. See Table 2.

5. Specifies that the President's budget submission must not exceed the maximum deficit.

6. Specifies that Congressional budget resolutions must not exceed the maximum deficit.

7. Requires the Office of Manpower and Budget (OMB) and Congressional Budget Office (CBO) to jointly report to General Accounting Office (GAO) the following information by 20 August.

(a) estimated gross national product (GNP) growth.

(b) projected deficit for the new fiscal year.\*

\*Projected deficit is based on a complete appropriation bill. If the President and Congress have not come to agreement, then the projected deficit is based on the previous years budget. (3:14)

(c) difference between the projected deficit and the maximum allowable deficit.

(d) percent reduction required from defense and from non-defense budgets.

## Revisions to Budget Process Timetable (For Fiscal Years 1987-1991)

Action	Prior Law	PL 99-177
President submits budget request	End of January	First Monday after January 31
Congressional Budget Office (CBO) reports to Budget committees on fiscal policy and budget priorities	April 1	February 15
Committees submit reports and estimates to Budget committees	March 15	February 25
Senate Budget Committee reports budget resolution to floor	April 15*	April 1
Congress completes action on budget resolution	May 15*, September 15*	April 15
House Appropriations Committee reports last regular appropriations bill	-	June 30
Congress completes action on reconciliation bill	September 25	June 15
House completes action on regular appropriations bills	Seventh day after Labor Day*	June 30
"Snapshot" of economic indicators, laws affecting spending and revenues and projected deficit taken by CBO and Office of Management and Budget (OMB)	-	August 15
CBO and OMB report to General Accounting Office (GAO) on deficit and content of the so-called sequester order making automatic spending cuts to achieve deficit targets	-	August 20
GAO forwards deficit and sequester report to president	-	August 25
President issues sequester order based on GAO report	-	September 1
Sequester order takes effect	-	October 1
Fiscal year begins	October 1	October 1
CBO and OMB issue revised reports reflecting additional congressional action after earlier reports	-	October 5
GAO issues revised report to the president	-	October 10
Final sequester order, based on revised report, becomes effective	-	October 15
GAO issues compliance report on sequester order	-	November 15

\* President's budget for fiscal 1987 is due February 5, 1986

\* Prior law deadline for Budget committees in both houses to report budget resolutions

\* Prior law deadline for first budget resolution

\* Prior law deadline for second binding budget resolution

\* Prior law deadline for Congress to complete regular appropriations bills

Table 2 (9:2608)

8. GAO resolves conflicts between OMB and CBO and passes report to President by 25 August.

9. If the projected deficit exceeds the maximum allowable deficit by \$10 billion, then the President has 15 days to issue an order sequestering percentage cuts prescribed in the OMB-CBO report.

10. Half (50 percent) of all sequestered funds come from the defense programs and the remainder comes from non-defense programs.

11. Percent cuts from OMB-CBO report are applied to line items in the budget accounts.

12. Federal retirement cost-of-living adjustments (COLAs) are split 50-50 between the defense budget and the non-defense budget.

13. "Exempts from automatic cuts: Social Security interest on the federal debt, Veteran's compensation, Veterans' pensions, Medicaid, Aid to Families with Dependent Children, WIC (a food program for women and children), Supplemental Security Income, food stamps and child nutrition, limit cuts in five health programs, including Medicare." (9:2604)

14. Automatic cut features are suspended in time of war and under certain conditions in a recession.

### CHAPTER III

#### HOW WILL GRAMM-RUDMAN-HOLLINGS EFFECT THE DEFENSE BUDGET IN FY 86?

To understand how GRH effects the FY 86 budget, it is necessary to first understand the mathematics involved and then we can go into the special provisions that apply to FY 86 only. Table 3 shows how the defense share was calculated.

GRH DEFENSE CALCULATIONS: FY 86 (\$ in Billions)	
CBO-OMB projected deficit	\$220.5
GRH Maximum Deficit	<u>171.9</u>
Excess Deficit	48.6
 FY 86 Cap on Cut	 \$20.0
Prorated to 7 months (7/12)	11.7
 Defense Share (50 percent)	 5.85
Minus COLA credit	<u>.50</u>
Net Defense Sequestration	5.35

Table 3

On 15 January, CBO-OMB jointly reported a projected deficit of \$220.5 billion. (1:81) Because this exceeded the FY 86 maximum allowable deficit of \$171.9 billion, the automatic sequestration took effect. However, GRH caps the budget cuts at \$20.0 billion for FY 86 (only). So instead of having to cut \$48.6 billion, we only have to cut \$20.0 billion from the federal budget. Another FY 86 special feature pro-rates that \$20.0 billion to the seven months



(March-September) remaining (in the fiscal year) after the sequester order takes effect (see Table 1). This leaves us with a required budget cut of \$11.7 billion. The 50 percent defense share then comes to \$5.85 billion. After allowing for a \$500 million cut of federal retirement COLAs that are defense related, that leaves us with a \$5.35 billion reduction in the DOD budget on 1 March 1986.

The next step is to determine where that \$5.35 billion will come from. In that regard, GRH requires the sequester order to reduce outlays, not budget authority for programs. This is important because budget authority is permission to spend; outlays are actual spending. So by reducing outlays, GRH cuts near term capability not future capability. Now "under the normal provisions of GRH, the President would be required to distribute cuts evenly across all defense accounts down to individual line items (M-1 Tanks, F-15s, Trident Submarines and 155 Howitzer ammunition, etc.). However, under the special provisions for FY 86, the President has flexibility in two areas." (3:2) First, the President can exempt all or any part of the military personnel accounts from the cuts. But whatever cuts are not taken from the personnel accounts must be made up by the other accounts. Second, within budget accounts, (e.g., Air Force aircraft procurement, Army vehicles, etc.) the

Administration can distribute cuts to individual line items by twice as much as the overall percentage cut applicable to defense, thus reducing the cut required of some other program within the same budget account. This means, for example, the Air Force aircraft procurement account for F-16s can take a double percentage cut to protect part of the F-15 account. Using these special provisions for FY 86, the President has exempted "about 99.6 percent of the military personnel accounts. \$235 million was cut from a total account of \$67.9 billion (\$87 million (3 percent) was cut from PCS monies; \$92 million will be saved in the early release of about 15,000 soldiers; \$55 million will be cut from Reserve training). (12:8) "In addition, the President has exempted approximately 20 of the Pentagons top priority procurement and research programs, and limited the percentage cut required from several other programs." (1:81) A listing of the programs known to be exempt or restricted is at Table 4.

"For FY 86, the Pentagon was given a 4.9 percent cut by CBO-OMB. Agencies other than the Defense Department were given a 4.3 percent cut." (1:81)

DOD PROGRAMS  
EXEMPT OR RESTRICTED  
FROM GRH (FY 86)

DEFENSE  
AGENT

TITLE

STATUS

Air Force:

Advance Technology Bomber (ATB)	Exempt
Global Positioning System (GPS)	Exempt
Defense Communications Satellite System (DCSS)	Exempt
Integrated Operational Nuclear Detection System (IONDS)	Exempt
Space Boosters Program	5.3% restriction
Space Defense (anti-satellite) Program	4.9% restriction
Air Force One replacement	4.9% restriction

Army

Mobile Subscriber Equipment (MSE)	Exempt
Synthetic Flight System	4.9% restriction

Navy

E-6A	Exempt
CH-53E	Exempt
C-2	Exempt
VH-60	Exempt
"Circuit Mayflower"	Exempt
AN/SSQ-62 DICASS	Exempt
HMMWV Vehicle (Marines)	Exempt
Logistics Vehicle System (Marines)	Exempt
A-6E improvements	Exempt
F-14	Exempt
AV-8B	Exempt
T-45 Trainer	Exempt
T-56 Engine	Exempt
EW Counter-response program	5.2% restriction

Table 4 (1:81)

However, the actual percent used will vary with each account because of the exemptions allowed and the obligation rates of the individual programs. In some accounts, DOD may have to cut three to four times as much in budget authority to meet our outlay cut. Thus, the amount of dollars cut from each program is difficult to predict.

As understood today, the cuts for FY 86 amounted to a \$13.3 billion" (11:110) cut in budget authority to meet a \$5.35 billion cut in outlays.

## CHAPTER IV

### HOW WILL GRAMM-RUDMAN-HOLLINGS EFFECT THE DEFENSE BUDGET IN FY 87 AND BEYOND?

The effect of GRH in FY 87 and beyond are not as cut and dried as FY 86 was. It is fairly safe to say that GRH will make it a lot more difficult for the defense budget to grow at the three percent plus inflation rate that the President desires. Beyond that, one can only make general projections which may or may not happen.

For FY 87-91, the rules of GRH are very clear. Meet the deficit limits specified (within \$10 billion) or the excess will be sequestered by a 50-50 split between defense and non-defense budgets. All programs, defense as well as non-defense programs, will distribute equal cuts down to the individual line items with no variance (or judgment) applied).

Table 5 shows the Presidents five year budget plan (in outlays) that was submitted to Congress on 5 February 1986, compared with the GRH maximum allowable federal deficit. As one can see, everything is fine, the Reagan deficits are below the GRH maximum in every year. Additionally, the defense budget grows by roughly 6 to 6½ percent (3 percent growth plus 3-3½ percent inflation) each year. But what about the other programs in the federal budget? Is it

realistic to believe that supporters of such programs as Energy, Agriculture, Health and Education, and Veterans benefits will accept near zero growth (actually a decline in spending power due to inflation)? Probably not if history is any indication. Table 6 compares the last five budgets. Remember too that under GRH, Congress can not bust the GRH ceiling. So, if Congress increases outlays in Agriculture or Education or wherever, they have to provide an offset reduction. With Defense, Social Security, and Medicare being the only programs showing steady growth, and with Social Security and Medicare exempt from GRH cuts, it is safe to assume that the defense budget will be the targeted offset for increases in the non-defense programs. This being the case, the three percent real growth looks very doubtful to me.

## Reagan Budget at a Glance

(In billions of dollars)

FISCAL YEAR	1986	1987	1988	1989	1990	1991
Defense	\$265.8	\$262.2	\$299.1	\$322.3	\$344.8	\$406.3
Foreign aid and other international programs	17.1	18.6	18.3	18.0	17.5	17.7
Energy, environment and natural resources	17.3	16.0	16.3	15.6	14.9	14.6
Agriculture	25.9	19.5	19.7	18.9	15.4	11.4
Health and education	66.4	62.4	63.0	64.3	65.4	66.7
Social Security and Medicare	268.8	282.4	302.1	322.9	345.2	361.9
Federal pensions, unemployment and other income security	118.1	115.4	123.1	125.7	128.3	132.5
Veterans benefits	26.6	26.4	26.9	26.9	27.2	27.1
Revenue sharing and other fiscal assistance	6.2	1.7	1.8	1.9	2.0	2.0
Other outlays	60.8	56.3	57.7	54.8	56.6	56.9
Net interest	142.7	148.9	145.1	136.0	125.6	115.9
Offsetting receipts	-35.8	-38.1	-46.4	-43.8	-49.3	-50.1
<b>TOTAL OUTLAYS</b>	<b>\$979.9</b>	<b>\$994.0</b>	<b>\$1,026.8</b>	<b>\$1,063.6</b>	<b>\$1,093.8</b>	<b>\$1,122.7</b>
<b>TOTAL REVENUES</b>	<b>\$777.1</b>	<b>\$850.4</b>	<b>\$933.8</b>	<b>\$956.1</b>	<b>\$1,058.1</b>	<b>\$1,124.0</b>
<b>(Deficit) Surplus</b>	<b>\$(202.8)</b>	<b>\$(143.6)</b>	<b>\$(93.0)</b>	<b>\$(67.5)</b>	<b>\$(35.7)</b>	<b>\$1.3</b>

Note: All figures estimated outlays

GRH Ceiling 171.9 144.0 108.0 72.0 36.0 0

Table 5 (7:9)

## Past Budgets: What Reagan Wanted vs. What Congress Gave

(In billions of dollars)

FISCAL YEAR	1981		1982		1983		1984		1985	
	REAGAN REQUEST	ACTUAL OUTCOME	REAGAN REQUEST	ACTUAL OUTCOME	REAGAN REQUEST	ACTUAL OUTCOME	REAGAN REQUEST	ACTUAL OUTCOME	REAGAN REQUEST	ACTUAL OUTCOME
Defense	\$161.3	\$180.0	\$200.3	\$216.5	\$263.0	\$245.0	\$280.5	\$265.2	\$313.4	\$294.7
Agriculture	5.5	13.4	5.6	24.2	6.9	35.2	13.5	11.8	12.1	27.5
Education	34.8	32.9	36.3	26.6	18.8	28.2	25.6	31.6	27.5	32.4
Social Security	131.1	134.6	150.4	148.0	168.6	184.1	173.4	178.5	198.5	199.5
Federal pensions, unemployment and other income security	120.3	129.7	129.2	121.6	89.0	135.4	110.8	138.8	139.2	164.1
Net interest	67.2	68.7	89.9	85.0	112.5	89.8	103.2	111.1	116.1	129.4
Total budget authority	696.1	745.9	809.8	809.9	801.9	888.1	900.1	949.9	1,006.5	1,074.1
Total outlays	615.8	543.0	739.3	594.3	757.6	661.2	848.5	686.0	925.5	770.0
Total revenues	600.0	469.1	711.8	474.3	666.1	453.2	659.7	500.4	745.1	547.9
Deficit	15.8	73.9	27.5	120.0	91.5	208.0	188.8	185.6	180.4	221.6

Source: Previous Reagan budget submissions compared with historical tables issued by White House yesterday

Table 6 (6:8)

But what if the Administration's estimates of revenues are understated, causing a greater deficit than projected in Table 3? Recently, the CBO released projections showing roughly a 50 percent decrease in the federal deficit between FY 86 and FY 91 without a change to existing tax or spending laws. "The deficits projected showed the FY 86 deficit at \$178 billion, FY 88 at \$164 billion, FY 89 at \$146 billion, FY 90 at \$123 billion and FY 91 at \$107 billion." (13:1) For as good as the 50 percent decrease sounds, these projected deficits are still well above the GRH ceilings and could thus cause major problems for defense programs. If the President and Congress did not reduce the total budget, then the automatic cut features of GRH would take effect and 50 percent of the excess deficit would be cut for defense. The results of such action are shown in Table 7.

According to Representative Les Aspin, Chairman, House Armed Service Committee, "An even more interesting series of events takes place if Congress fails to enact an appropriations bill by late summer--a very real possibility--then in the absence of an approved budget, GRH's formula for cuts is automatically applied to the previous year's budget." (3:14) The effects on defense of this action are obvious.



**CBO DEFICIT PROJECTIONS**  
(\$ in Billions)

FISCAL YEAR	FY 87	FY 88	FY 89	FY 90	FY 91
1. CBO DEFICIT PROJECTIONS	178.0	164.0	146.0	123.0	107.0
2. GRH CEILING	144.0	108.0	72.0	36.0	0
3. EXCESS	34.0	56.0	74.0	87.0	107.0
4. DEFENSE CUT (50%)	17.0	28.0	37.0	43.5	53.5
5. LINE ITEM PERCENT CUT (APX)	3.5	5.5	7.0	8.0	9.5
6. REVISED DEFENSE OUTLAYS (TABLE 3) MINUS LINE 4	265.2	271.1	285.3	301.3	312.8
7. DEFENSE OUTLAYS ANNUAL INCREASE	0	2.3%	5.2%	5.3%	3.8%

Table 7

## CHAPTER V

### CONCERNS

The real effect on the defense budget may not be in the numbers discussed in previous chapters, but in the indiscriminate application of cuts and the resulting impact on the defense programs and people. Listed below are some concerns that surface regarding GRH. These concerns can not be answered now, but they may represent the real effects of GRH on defense.

1. If the well-managed, critical defense programs are cut at the same rate as all the "gold watches" and poorly managed programs, then where is the incentive to be a good program manager?

2. Knowing that the defense budget will be cut each year, will there not be a great temptation to pad the budget to offset future cuts?

3. Across the board cuts applied down to every line item will impose different levels of "pain" in different programs. A five percent cut of a large Operations and Maintenance (O&M) line may not be as serious as five percent out of a small military account. Is this good management?

4. The automatic cut features make it too easy for Congress to cut the defense budget without actually voting against defense.

5. The last concern is with morale of the military and the health of this nation. The 50-50 split is unfair. The cut should be applied equally to all accounts. The 50-50 split could be viewed as saying that defense is responsible for 50 percent of this nation's budget deficits. This thinking could turn our nation against our defense establishment and put us back in the post Vietnam environment; divided and bitter.

## CHAPTER VI

### CONCLUSION

The GRH is designed to balance the budget by FY 91 by incrementally reducing the deficit ceiling each year until reaching zero in FY 91. Should the deficit exceed the GRH ceiling, then automatic controls take over and force the President to eliminate the deficit excess by sequestering (cutting) 50 percent of that excess from the defense budget and the remaining 50 percent from non-defense programs. On 12 December 1985, Representative Mike Synar (D-OK) filed suit in District of Columbia federal district court, claiming the GRH automatic spending reductions are unconstitutional. On 7 February 1986, the three judge panel rule in favor of Representative Synar. Under provisions written into GRH, the suit next goes to the Supreme Court for immediate appeal. The outcome is expected by early summer and could significantly impact GRH.

GRH reflects the concern of everyone in our nation over the need for a balanced budget. However, the mechanics of the bill reflect Congress' inability to deal decisively with the hard, and often unpopular issues required to achieve a balanced budget.

One can imagine an endless string of exercise to show the effects of GRH on defense. For my part, I feel this

country sees a need for a balanced budget overriding the need for increases in the defense budget. For this reason, the numbers at Table 5, probably reflect the "best case" for the defense budget in FY 87 and FY 88. I think it more likely that we will be forced to live with zero growth and that we will be lucky to keep up with inflation for these two years. The FY 89 budget and beyond will very much be a reflection of the presidential elections in 1988.

In this paper, I have tried to explain GRH so that the reader can understand what is happening now and can figure out what will happen in the near future. Like everything that comes out of Congress, GRH is subject to change. I think it will.

I want to close this paper with a quote from Representative Les Aspin (D-Wis), Chairman of the House Armed Services Committee. He said, "Gramm-Rudman is neither good government nor good policy." (2:1)

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